

COUNTY OF ULSTER

Office of the Comptroller
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Elliott Auerbach, Comptroller



BANK RECONCILIATION STATUS REPORT

July 2011

BACKGROUND

Bank Reconciliations

The Ulster County Charter as well as County Law of the State of New York call for the County Comptroller to obtain bank statements directly from the banks and other depositories used to hold any and all funds which the County is responsible for and reconcile them to the County's books and records. This represents a substantial change from the system in place prior to the effective date of the Charter, January 1, 2009, which had the department or office with custody and control of the bank accounts receiving the bank statements and performing the bank reconciliations.

Monthly bank reconciliations are a critical part of the checks and balances of any accounting system if done timely and properly. They reconcile the official books and records used for financial reporting and management of operations against cash activity objectively recorded by a third party, the bank or other depository. A timely bank reconciliation is considered to be one that is completed by the end of the following month. As part of an effective internal control system of checks and balances, bank reconciliations should not be performed by the same people keeping the books and records because they have an interest in the outcome of the bank reconciliation process. The Comptroller acts as an independent party in the reconciliation process enhancing the system of checks and balances.

There are a number of steps in fully implementing these seemingly simple and straight-forward requirements under the law.

1. Identify all banks accounts which hold funds for which Ulster County is responsible;
2. Obtain compliance from banks and other depositories in sending copies of statements directly to the County Comptroller;

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3. Identify departments and offices responsible for funds on deposit and determine which cash accounts on the County's official books and records reflect these funds;
4. Obtain copies of the bank reconciliations being done by the respective departments/offices responsible for the funds on deposit and review them; and finally
5. Assume the responsibility the monthly reconciliation of all bank accounts.

As of May 31, 2011, Ulster County had approximately \$81.5 million on deposit in 56 bank accounts. Twenty-one (21) of those bank accounts are handled by various departments or offices as 'off-book' totaling over \$3.8 million at May 31, 2011. For the purposes of this report departments are responsibility areas under the County Executive whereas offices are responsibility areas of other elected officials. 'Off-book' means that the activity in these accounts is not recorded on the official books and records of the County kept by the Commissioner of Finance. Once a year the reconciled cash balance is added to the official books and records for end of year financial reporting purposes. All of the bank accounts handled *on* the official books and records are kept by the Commissioner of Finance.

Other Issues

The following related issues have also been considered:

- Moneys held only in banks and trust companies as authorized by NYS General Municipal Law and NYS Banking Law; and
- Moneys held only in depositories designated by Ulster County Executive in accordance with County Charter; and
- Moneys on deposit adequately collateralized in accordance with Ulster County's investment policy as required by NYS General Municipal Law.

IDENTIFICATION OF BANK ACCOUNTS

The process of identifying all of the bank accounts and other depositories that hold funds which Ulster County is responsible for has been a challenging one. Inquiries were made of departments/offices and listings of bank accounts were reviewed including the public deposit collateralization schedule. We believe they have all been identified at this time through inquiries of departments, offices and banking institutions with the total count at 56 currently.

'Off-Book' Accounts

The bank accounts which have been reflected *on* the County's official books and records were much easier to identify. The 'off-book' bank accounts represent various types of accounts which are established and handled by 8 different departments/offices. At year end these cash account balances have been recorded on the official books and records with a journal entry increasing cash and recording an off-setting liability 'due to other governments'. While this may be a suitable recording method for some of the accounts, it appears that this method does not accurately characterize the balance or activity in all of the 'off-book' accounts. Only one bank account meets the NYS general ledger account code definition for Due to Other Governments in total. This simplified approach fails to take into account the following:

- 2 accounts are used exclusively to collect revenue for Ulster County;
- Additionally, 16 accounts contain some funds which are revenue to Ulster County;

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- 7 accounts include some moneys due to the State of New York and other governments;
- 3 accounts are receiving revenue which is not recorded, and making expenditures which are not recorded, and as a result some purchases are not considered by Purchasing;
- 4 accounts purposes are to collect funds on behalf of others and disburse the funds to the appropriate parties (which are generally not other governments);
- 1 account is used exclusively to account for funds received and disbursed on behalf of others;
- 1 account is used exclusively for a restricted purpose.

Treating all of these accounts in this manner raises a question on the accuracy of financial reporting. In addition, the fact that the underlying transactions for some of the accounts do not get recorded on the County's official books and records has resulted in a lack of consideration in evaluating compliance with established policies and procedures.

As previously stated, in some cases revenue is simply not being recognized due to the 'off-book' status of these accounts. In other cases the revenue eventually gets turned over to the Commissioner of Finance to be recorded in the official books and records and invested for maximum interest income. There are a couple of accounts which do not turn over the revenue regularly each month. The stated reason is staffing issues for both the department and the office, respectively. One of the accounts has been 3-5 months behind in turning over revenue with amounts due Ulster County's general fund exceeding a half million dollars during 2011.

While it may have been acceptable in the past, it appears that in consideration of the activity in the accounts and materiality, this simplified method is not providing for accountability in financial reporting and handling of the funds currently. Reconsideration of the appropriateness of handling all of these accounts as 'off-book' and/or the journal entry being used to reflect the balances appears to be in order.

Unauthorized Depository

One office was found to have established a bank account at a savings bank in 2010 which is not authorized for deposit of public funds either by NYS Law or by the Ulster County Executive as required by the Charter. The funds on deposit in this account were not reflected on the County's official books and records nor were they considered in collateralization of the County's deposits. As a result of these issues being raised by the County Comptroller in April of 2011 these funds were transferred to an authorized bank. The two checks issued out of the account at the savings bank were both made payable to "Cash". One of these checks was apparently used to establish the new bank account.

In addition, based on the information provided by the office, it appears that this account should not be held by the office. The proper handling would be for the funds to be in the custody of the Commissioner of Finance and subject to audit and certification by the County Comptroller as required by the Charter. The office was contacted with this information almost two months ago. A response was received after close of business on July 15, 2011. The Comptroller will continue to press for full disclosure and the highest levels of accountability.

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COMPLIANCE OF BANKS AND OTHER DEPOSITORIES

Two methods have been employed in an effort to receive monthly activity statements directly from the banks and other depositories; direct communication with the institutions and requesting respective department heads and officials contact the institutions to request direct mailing to the Comptroller as required. Department heads and elected officials have the relationships with the institutions they have chosen as depositories. Their assistance was requested and generally received in making the transition to having copies of the statements sent directly to the Comptroller's office by mail. The couple of instances where departmental or official cooperation has not been extended, direct pursuit of the institution for compliance with this requirement under the law has resulted in cooperation from the institutions.

Most of the copies mailed to the Comptroller's office do not include copies of the cancelled checks at this time. This potential issue will be addressed in the future.

BANK RECONCILIATIONS

Once bank accounts and other depositories were identified, the process of considering bank reconciliations could begin. It was assumed that all of the County's 56 bank accounts are being reconciled by the responsible custodial departments/offices. In an effort to learn the process used currently in reconciling each of the 56 accounts, requests have been made to all of those departments and offices for copies of the bank reconciliations. The reconciliations received were the starting point for understanding the current process and determining and prioritizing the next steps by the Comptroller's office in pursuing full implementation of the Charter.

Bank reconciliations have two types of reconciling items: timing and permanent. Timing differences mean that the bank's records and the County's books are in agreement but the timing of recording the activity is different. The most common timing differences are deposits in transit and outstanding checks. Deposits in transit should always clear the following month. Outstanding checks normally clear when the payee deposits or cashes the check which is usually the following month but not necessarily. Permanent differences mean that the bank's records and the County's books are *not* in agreement and that one or the other must record or correct the activity posted. Until the recording takes place, the item will continue as a reconciling item. Permanent differences usually result in adjustments to the County's books and records. If this is the case, the County's books and records are *incorrect* until the reconciling item is recorded and cleared.

Status of Bank Reconciliations

Department of Finance - The Department of Finance currently has custody and control of 35 of the County's 56 bank accounts and has been reconciling them to the County's official books and records which it also keeps. The reconciliations are being prepared in a suitable standardized format.

The reconciliations of 32 of the accounts which have a small volume of activity have been performed timely according to reporting by the department. Comptroller's office staff sat with the individuals performing the reconciliations for a month's reconciliation to understand the actual

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steps taken, records reviewed, etc. for 32 of the accounts. Reconciling items identified on 2011 bank reconciliations appear to be normal timing differences, and permanent differences such as interest earnings which clear the following month. The bank reconciliation process appears to be successful and timely for these 32 accounts.

It was noted that the process used in reconciling one account with a large volume of activity appeared to be an inefficient one to use on a regular monthly basis. A great deal of time was spent checking off each transaction, a process which normally produces no exceptions or reconciling items for this account according to the staff person who performs the reconciliation. This tells us that the books and records are usually in agreement with the bank's records, which is the desired outcome. Checking each transaction lends nothing to the reconciliation process if the initial bank reconciliation produces no differences. The process used for this account employed an inefficient use of staff time. The reconciliations on this account were behind a couple of months during 2011 but are now being done timely.

The reconciliations of the 2 bank accounts which disburse most of the County's funds are seriously delinquent and have been for some time. For one of the accounts, early 2010 bank reconciliations were running some months behind through May 2010. June-December of 2010 were not reconciled until May of 2011. January of 2011 was reconciled in June of 2011. February-May 2011 are unreconciled. The other account's reconciliations were running many months behind for 2010 seem to have settled into consistently being done about 3 months behind into 2011. The most current reconciliation of this account was for February 2011 completed in June 2011. It appears that work is being performed in the reconciliation process but completing the bank reconciliations on a timely basis is not successfully occurring. Due to the fact that these 2 accounts represent much of the disbursement activity of the County and affect the official books and records, this situation is considered serious.

Other Departments/Offices – Of the remaining 5 departments and 3 offices with custody and control of bank accounts, all of which are 'off-book', the following status is noted: 1 department's and 1 office's accounts have almost no activity so no bank reconciliation has been requested (2 bank accounts); 3 departments' and 1 office's bank reconciliations are being received and being done timely (12 bank accounts); 1 department's bank reconciliation is being prepared in draft form by Comptroller's office and forwarded to the department of review (1 bank account); and 1 office has declined cooperation with the bank reconciliation request (6 bank accounts) - *see below*.

The 3 departments and 1 office who are performing bank reconciliations appear to be doing so on a timely basis with no unresolved issues other than those raised elsewhere in this report. Those other unresolved issues include carrying reconciling items such as stale dated checks, old unidentified amounts or amounts due to Ulster County for revenue collected. The reconciliation being performed by the Comptroller's office is being done timely but the responsible department also has old reconciling items that are being carried and need resolution.

Due to the nature of 'off-book' bank accounts, it is critical that the responsible departments and offices have systems in place to identify and track all funds which are in their care and custody to meet their fiduciary responsibilities on the public's behalf. These departments and offices do not have the comfort of relying on the County's official books and records which are maintained on a

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double-entry system to meet their accountability responsibilities. Part of the bank reconciliation process for these departments/offices must be identifying the components of the 'book balance' in the reconciliation process. This might include a list of whose money they have on hand at the end of each month or other appropriate records.

Bank Reconciliation Request Declined by Office

One office has declined to provide copies of prepared bank reconciliations as requested by the Comptroller's office. It is the Comptroller's office understanding that bank reconciliations have been prepared for 5 of the 6 accounts under this office's control and custody. One of the 5 accounts which is being reconciled appears to have been as much as 4 months behind during 2011. Upon inquiry of office personnel, it was stated that the account which is currently not being reconciled, was not reconciled at all during 2010 or 2011.

Stale Dated Checks

A number of the bank reconciliations include old outstanding checks. Outstanding checks are checks that have been issued and recorded as disbursed from the account but have not yet been paid by the bank. They are part of the items which reconcile the difference between the bank's balance and the County's book balance. These are considered stale dated checks; that is checks that which are considered too old to negotiate. Various sections of New York State law come into play in handling stale dated checks for the different types of accounts which make up the 56 bank accounts. All bank reconciliations' outstanding check lists should be reviewed on a regular basis for such old checks. These items should be cleared from old outstanding items by reissuance or any other appropriate handling consistent with applicable laws. As an aid in monitoring the age of outstanding checks, check issuance dates could be added the outstanding check lists. They should not stay on the outstanding list for more than one year.

Unidentified Amounts in Bank Accounts

At least 2 bank accounts for different departments which collected money on behalf of others include funds which are unidentified, meaning they are not sure who the money belongs to. The unidentified amounts are carried each month on the bank reconciliations as reconciling items totaling more than \$55,000. An account of an office has been carrying a bank deposit of more than \$1,000 as a reconciling item for a couple of years. At least one other department's account contains funds for which the source is unclear. These amounts have been carried for years. Such reconciling items should be resolved in a timely fashion so that the funds can be reported properly, and perhaps more importantly be put to use by the appropriate parties whether they be victims, families, taxpayers or others.

BANK RECONCILIATION BY COMPTROLLER

It is the intention of the Comptroller to continue to move toward reconciliation of all bank accounts as prescribed by the County Charter and NYS law. One account is being reconciled currently. We will continue to move in this direction. The accounts which are of highest concern and focus for the Comptroller are the 2 accounts which house most of the County disbursements and have not been timely and successfully reconciled for all of 2011. Efforts have been made to assist in the reconciliation process of these accounts over the last several months which were declined by the Department of Finance.

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If they have not already done so, Comptroller's staff will sit with the staff of each department and office performing reconciliations during the process for education and assessment purposes. This is a crucial piece of the effort to meet the bank reconciliation obligation. It is understood that the transition to Comptroller's office preparation of bank reconciliations is not easy for the Comptroller or for the departments/offices. The Comptroller's staff size has not increased to reflect the additional workload. In addition to change in departments'/offices' responsibility, their staff must provide access to records to enable reconciliation by Comptroller's office staff.

OTHER ISSUES

Local governments are required by New York State General Municipal Law to adopt investment policies and review them annually. This action must be taken by resolution. Public funds on deposit which exceed FDIC insurance coverage are required to be secured; that is protected from loss in the event of a bank or depository failure or loss. The most recent investment policy that was adopted by Ulster County was 1995 according to the records available. The policy has apparently not been reviewed annually as required by law. It has also apparently not been reviewed to reflect the changes in County government as a result of the adoption of the Charter.

The Comptroller's office has requested and received copies of the monthly collateralization of public funds schedule prepared and maintained by the Department of Finance. It was noted from reviewing the collateralization schedule that the account groupings and totals as they appeared did not facilitate evaluation of the adequacy of collateralization given current FDIC coverage. When made aware of this, Department of Finance staff modified the schedule. In addition the list of bank accounts was compared to this schedule. While it did not materially change the collateralization need, the unauthorized depository mentioned earlier in this report was brought to the Department of Finance's attention.

CONCLUSION

The wisdom of the crafters of the Ulster County Charter and New York State law with regard to requiring bank statements go to and be reconciled by the Comptroller should be highly valued by all. While the challenges with the change and transition for the parties involved is understandable, the overarching goals and accountability for public funds are great. It is clear from the work done in this area to date that there are issues which have shown themselves by simply obtaining the bank statements and getting copies of bank reconciliations. Potential process inefficiencies can be addressed. Untimely reconciliations by departments and offices that have an interest in the outcome of the reconciliation process is not a good system. As has been seen so far, the progression toward implementing independent bank reconciliations can shine a light on other areas of operations which may lead to inaccurate financial reporting, potential loss of revenue, overpaying for goods and services, potential for misappropriation of assets, non-compliance with internal control and procurement procedures, delayed payments to victims or families, and a compromised capacity to meet fiduciary responsibilities to the public and others. The Comptroller will lend independence with full implementation.

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DEPARTMENT OF FINANCE RESPONSE

ULSTER COUNTY DEPARTMENT OF FINANCE

P.O. Box 1800, Kingston, New York 12402 Phone: (845) 340-3460 Fax: (845) 340-3430

Paul J. Hewitt
Commissioner of Finance



Burton Gulnick Jr. 334-5536
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July 22, 2011

Elliott Auerbach
Comptroller
Ulster County
244 Fair Street
Kingston, NY 12401

RECEIVED
2011 JUL 22 PM 12:54
US COMPTROLLER

Dear Comptroller Auerbach,

Thank you for allowing my staff and me to read a draft of your Bank Reconciliation Status Report dated July, 2011. At your request, we have reviewed the draft report and developed a response to it. As noted in your report, bank reconciliations are a critical part of the checks and balances of any accounting system and my office and I take that very seriously.

Before considering the details of the status of bank reconciliations, I would like to assure you that the Department of Finance is always willing to accept help. I believe there must have been a misunderstanding in this area as your report states, ***'Efforts have been made to assist in the reconciliation process of these accounts over the last several months which were declined by the Department of Finance.'*** We did, in fact accept assistance in December of 2009, when your senior auditor did a review of the September and October 2009 bank reconciliations and with your recommendation we developed a standardized form for bank reconciliations which we instituted in January of 2010. Also, in an effort to maintain open communication, the Finance Department began posting the status of bank reconciliations in a shared folder with your office. The completion dates of our bank reconciliations have been available in this folder since November, 2009. As both of our offices understand how bank reconciliations are actually performed, I believe any actual efforts to assist us were not clearly identified. The bank statements for our largest accounts have been available to your office and your office has access to the County's financial system, so the opportunity for you to assist or actually perform the bank reconciliations has always been available to you.

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In the draft report, you also mention that *'2 bank accounts are seriously delinquent and have been for some time.'* We agree that bank accounts should be reconciled timely and we take the performance of this activity very seriously, however it should be noted that reconciling our records to the bank's records is not a single step process. Our two largest accounts require the preparation of several supporting worksheets. So, although a bank reconciliation may not be 100% complete by the end of the following month, many steps toward the final reconciliation are routinely performed on a timely basis. Bank statements and bank transactions are always reviewed monthly as part of the reconciliation process. As an example, the June-December of 2010 bank reconciliation for the disbursement account was unreconciled for a longer period of time than I would have liked, however my office identified the amount (\$ 1,843.75) and that amount carried forward for the 6 month period. My office continued to go through records and double check items until it was found. Keep in mind, the disbursement account has over 4,000 checks on any one statement along with many voids and reissues. Knowing that the amount was not a combination of items and that this amount carried forward for several months, I felt confident that this item was being managed by my staff.

Finally, regarding the 'off-book' accounts, my office has started meeting with those offices and departments who have these accounts. Our intention is to develop better procedures to track these accounts and record any transactions in a timely manner. These procedures will incorporate any changes that are required to address stale dated checks and unidentified amounts.

As always, if you have any questions regarding this or any other matter, feel free to contact me.

Sincerely,



Paul J. Hewitt

Commissioner of Finance

CC: Michael P. Hein, County Executive